Red Owl Stores, Inc.

Blueprint for Growth

ANNUAL REPORT FOR PERIOD ENDED MARCH 1, 1958

Contents

Picture of Progress

Twenty-five supermarkets were constructed, rebuilt and relocated by Red Owl this year. In its greatest year of growth since 1922, the Company added 245,423 sq. ft. of store space.

Red Owl Stores, Inc.
(excluding Realty Holding Subsidiary)

Highlights

	FISCAL YEAR ENDED MAR. 1, 1958 (52 weeks)	FISCAL YEAR ENDED MAR. 2, 1957 (53 weeks)	PERCENTAGE INCREASE
Retail sales	$144,890,532	$124,292,620	16.6%
Wholesale sales	31,539,222	30,249,597	4.3
Total	$176,429,754	$154,542,217	14.2
Earnings			
Before taxes on income	4,340,322	3,920,122	10.7
Net earnings for year	2,018,322	1,798,122	12.2
Reinvested in business	1,164,421	1,051,390	10.8
Earned per share common	3.30	3.08	7.1
Number of common shares outstanding	610,891	561,861	8.7
Dividends per share	1.40	1.25	12.0
Net working capital	12,865,516	8,423,663	52.7
Ratio of current assets to current liabilities	2.37 to 1	2.06 to 1	
Book value per share common	22.70	20.86	

To Stockholders and Employees

Chairman Ford Bell reports . . .

The year ended March 1, 1958 reflected a continuing upward trend. Sales and earnings established new records; 25 supermarkets were opened; new and improved plant facilities were added.

Sales advanced more than 14% over the previous year. The average annual sales per retail store climbed to $953,000 from $851,000 a year ago. It may be noted, however, that the average of the larger stores now being opened is more than $1,600,000.

Net earnings for the year increased 12% to a new high of $2,018,322. Per share earnings were $3.30 compared with $3.08 in the preceding year.

Four quarterly dividends of 35¢ per share were paid to holders of common stock. Dividend payments, aggregating $853,901, amounted to 42% of the year's net earnings.

Supermarket expansion continued at a high level during the year with the opening of 25 stores, including the Company's entry into such key cities as Madison, Wisconsin and Duluth, Minnesota. These new retail outlets contributed materially to the year's sales increase. The continuing expansion program has strengthened our competitive position and has provided a firm foundation for future sales growth.

At this time, further increases in sales and earnings are anticipated in the year ahead. Much emphasis will be placed on developing larger supermarkets in key cities with a heavy concentration of population. In line with policy, several outstanding stores are under way in Milwaukee, Wisconsin, the first of which will be opened during the summer.

Financing has been completed at what we deemed satisfactory terms to assure the continuance of our aggressive growth program for the next two years. In February 1958 the Company sold through a public offering $3,500,000 of Convertible Subordinated Debentures. As reported to you earlier, in June 1957 arrangements were made for the sale of $3,000,000 of long-term notes to seven institutional lenders.

Again to you, our stockholders and employees, we extend our thanks for your continued faith and good will, without which our growth and progress would not be possible.

Ford Bell

Review of the year's operations – Red Owl Stores, Inc.

The following comments pertain only to operations of Red Owl Stores, Inc. Consolidated statements, as well as a review of the activities of Hopkins Realty Company, a wholly-owned subsidiary, are shown later in the report. The fiscal year ended March 1, 1958 included 52 weeks of operations while the previous year's figures covered 53 weeks.

Sales up 14%

Sales increased to $176,429,754, a gain of more than 14% on an over-all basis. Retail sales were up in excess of 16%. Wholesale sales increased over 4% despite a reduction in the number of accounts. The decline in the number of agencies is the result of a program to eliminate those accounts that do not return a satisfactory profit.

Earnings at new high

Pretax earnings established a new record of $4,340,322 compared with $3,920,122 in the preceding year.

Taxes on income amounted to $2,322,000, leaving net earnings after taxes of $2,018,322, or 12% over a year ago. Earnings were equal to $3.30 per common share on the 610,891 shares outstanding. This compares with per share earnings of $3.08 a year earlier when 561,861 shares were outstanding.

Operating earnings before taxes on income amounted to 2.46% of total sales. Based on retail operations only, the figure was 2.55%. Net earnings were 1.14% of total sales, and profit from retail operations was approximately 1.18% of retail sales.

Dividends $1.40 per share

Red Owl has paid cash dividends on its stock each year since 1933. Shareholders received four quarterly dividends of 35¢ per share, or $1.40 per share for the year. Dividend payments totaled $853,901. The year ended March 1, 1958 was the fourth consecutive year in which dividend payments were higher per share of stock.

In order to permit Management to carry on long-range planning and to undertake forward commitments in connection with the expansion program, the Company has taken steps to secure the new capital required for the next two years.

During February, 1958 the Company sold publicly $3,500,000 of 4¾% Convertible Subordinated Debentures, due February, 1978. The choice of this type of financing was dictated by favorable market conditions and Management's concern for the interest of present shareholders. The new financing resulted in a substantial cash reserve and a good working capital position.

Expansion financing completed

In June, 1957 arrangements were completed for the sale of $3,000,000 of 5½% notes, due October 1, 1972. Terms of the agreement provide for the participation of seven institutional lenders at varying closing dates between October, 1957 and September, 1958.

Net working capital at the close of the year was $12,865,516. The ratio of current assets to current liabilities was 2.37 to 1.

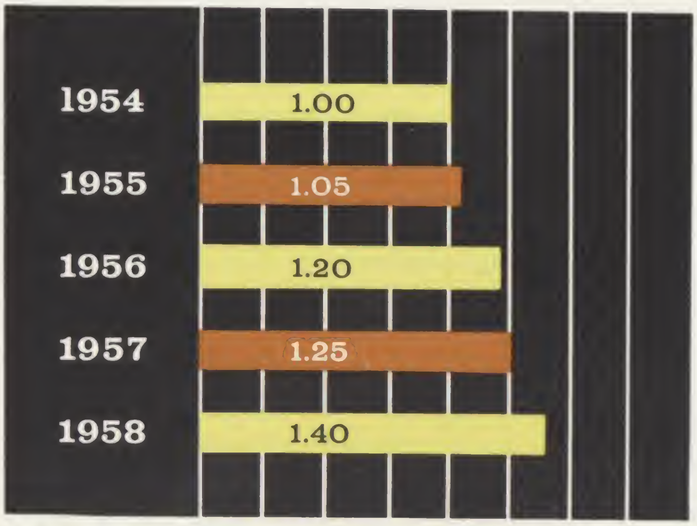
Inventories amounted to $12,529,056, up $1,587,200 from a year ago. The present stock of merchandise represents requirements for approximately four and one-half weeks, which will produce an excellent turnover rate.

During the year, capital invested in new fixtures and equipment totaled about $3,000,000 compared with $2,000,000 in the preceding year.

Comparison of earnings, dividends and book values

Net earnings

Earnings per share common



Dividends per share common

Book value per share common

Total sales comparison

On March 5, 1957 the remaining 9,500 shares of preferred stock outstanding were converted into common shares.

Management changes

The untimely death of Joseph F. Ringland, a Director of the Company since 1945, left the Company with a feeling of great loss. In November, 1957 the Board of Directors elected Goodrich Lowry to succeed Mr. Ringland. Mr. Lowry is President of Northwest Bancorporation, Minneapolis.

On March 10, 1958, shortly after the close of the fiscal year, Alf L. Bergerud, a Vice President and General Counsel since 1934, was elected President. He succeeds Glenn R. Grife, who was named Vice Chairman. Mr. Grife, who has been with the Company since its formation, will head up the Company's research activities.

Erling Rice, Vice President-Operations, has been elected a Director. L. W. Rixe, formerly Treasurer, has been named Vice President and Treasurer. James A. Watson has been promoted to Vice President and will continue as Manager of Retail Operations.

Management development

Red Owl continues to place increased emphasis on management development. The Company is well aware of the importance of having qualified people ready to accept the challenges of expansion.

Programs for on-the-job training within the ranks of store personnel as well as for middle management executives were reviewed and in some instances revised in an effort to improve methods of developing leadership qualities. It is the Company's policy to develop and promote from within the organization whenever possible. New records for keeping an inventory of promotable people, position analysis, and performance appraisal procedures were installed. In-the-office seminars, conferences sponsored by the food chain associations, and outside-the-company management development courses were all used more extensively than heretofore. Individual programs were laid out to furnish executives with a broader knowledge of Company affairs prior to assignments of greater responsibility. College recruiting became a greater source of new manpower.

Fargo, No. Dak.

St. Paul, Minn.

Duluth, Minn.

Red Owl is proud of the fact that for the third consecutive year an employee was selected as one of the nation's winners in the National Good Citizenship award sponsored by the National Association of Food Chains.

At the close of the year, 1350 employees were covered under the Company's noncontributory pension plan. Premiums for this coverage charged to current operations amounted to $321,930. At this time a comprehensive study is being made of employee benefits to determine if the various plans meet the changing conditions of today.

During the year 25 supermarkets were opened. Of these, 13 were added locations, 9 were relocations, and 3 were enlargements of existing buildings to greatly increase sales area. In addition to relocated stores, seven units were closed or converted to agency stores.

Store openings, relocations and enlargements included six in the Twin City metropolitan area; five in other cities in Minnesota; five in Wisconsin; four in South Dakota; two each in North Dakota and Michigan, and one in Iowa.

Twenty-five supermarkets opened

In 1954, the Company embarked upon a stepped-up program of opening larger supermarkets in metropolitan centers and closing smaller rural stores. Since that time, 75 stores have been opened, including relocations and store enlargements. Sales per store have increased from $510,000 in the year ended February 28, 1954 to $953,000 in the latest fiscal year. The newer stores, which are considerably larger than those constructed earlier in the expansion program, have an average annual sales volume of more than $1,600,000. The increase in square footage, after deducting closings and conversions to agency stores, amounts to 615,122.

A summary of the expansion program follows:

	Fiscal year ended in				
	1955	1956	1957	1958	Total
Stores opened or relocated	7	14	23	22	66
Stores enlarged	2	2	2	3	9
Increase in square footage, net of closings and conversions	36,595	153,082	180,022	245,423	615,122

Additional benefits of the store expansion program have been greater utilization of distribution facilities and the establishment of a broader base for the absorption of fixed handling and administrative costs.

Green Bay, Wisc.

Sioux City, Iowa

Madison, Wisc.

Search for new ideas continues

To better service Red Owl Stores with quality merchandise, the Company constructed a new fruit and vegetable warehouse, including frozen food facilities, adjacent to the Hopkins plant. The new structure, which contains 66,000 square feet of space, is considered to be the most modern in design and layout. Several features of this plant are pictured elsewhere in this report.

An on-the-premise bakery has been opened in the Duluth store. The plant will also supply home style bakery items to the Red Owl store in Superior, Wisconsin. Another in-the-store bakery was opened in Madison, Wisconsin to serve the three stores in that city. Additional locations are under consideration for the coming year. These bakeries are in line with Red Owl's policy of improving merchandising techniques, particularly in the more perishable food items.

The expansion program has been accompanied by a continuing search for new and improved methods of handling merchandise, attracting more customers to Red Owl stores, and increasing Company sales in the years ahead.

The Dor-Less-Dor, which utilizes an air curtain process, was installed at the main entrance to the Madison, Wisconsin and St. Anthony (Minneapolis suburb) stores. Experiments are being conducted in two stores using the Dor-Less-Dor principle in the refrigeration and display of dairy products. Other tests inaugurated last year involve new methods of labeling, wrapping, pricing, processing and displaying merchandise. Some of these tests are shown in this report.

Experiments with non-food items have resulted in the extension of this type of merchandise in many key points. Red Owl Stores now carry such products as housewares, soft goods, phonograph records, toys and magazines. Although it is somewhat premature to state precisely which non-food items will be handled regularly, some of the new supermarkets are being designed to enable us to expand this field. While Red Owl will continue to take advantage of the sales and profit opportunities afforded by these lines, the Company's primary concern is the expansion and improvement of its food operations.

The Company's aggressive advertising program includes the use of television and radio, and color as well as black and white newspaper advertisements. Promotional activities such as contests are being extended with wide success. Trading stamps remain an effective promotional device in most of the Company's trade area.

Looking ahead

The Company looks forward to a growing economy in the territory served by Red Owl Stores. Industries in the area are expanding and diversifying. New industries are being attracted by the favorable conditions found in the Upper Midwest. Agriculture in this area has fared well in the past and is expected to continue to prosper. While Red Owl's supermarket development has been rapid, opportunities for further growth exist within its present operating territory.

WARM air from above is forced through floor grid in Red Owl's new Dor-Less-Dor, first in the Northwest. Air curtain eliminates conventional swinging doors.

Included in expansion plans for the coming year is the Company's entry into Milwaukee, Wisconsin with several supermarkets. The trend toward larger stores carrying a wider variety of merchandising will continue.

Research is the keynote in the year ahead. Improvements will be sought in all phases of the Company's operation to offset rising costs and to increase productivity.

Development of personnel will be an important objective in all departments to insure that our manpower reserves keep pace with expansion plans.

Review of the year's operations— Hopkins Realty Company

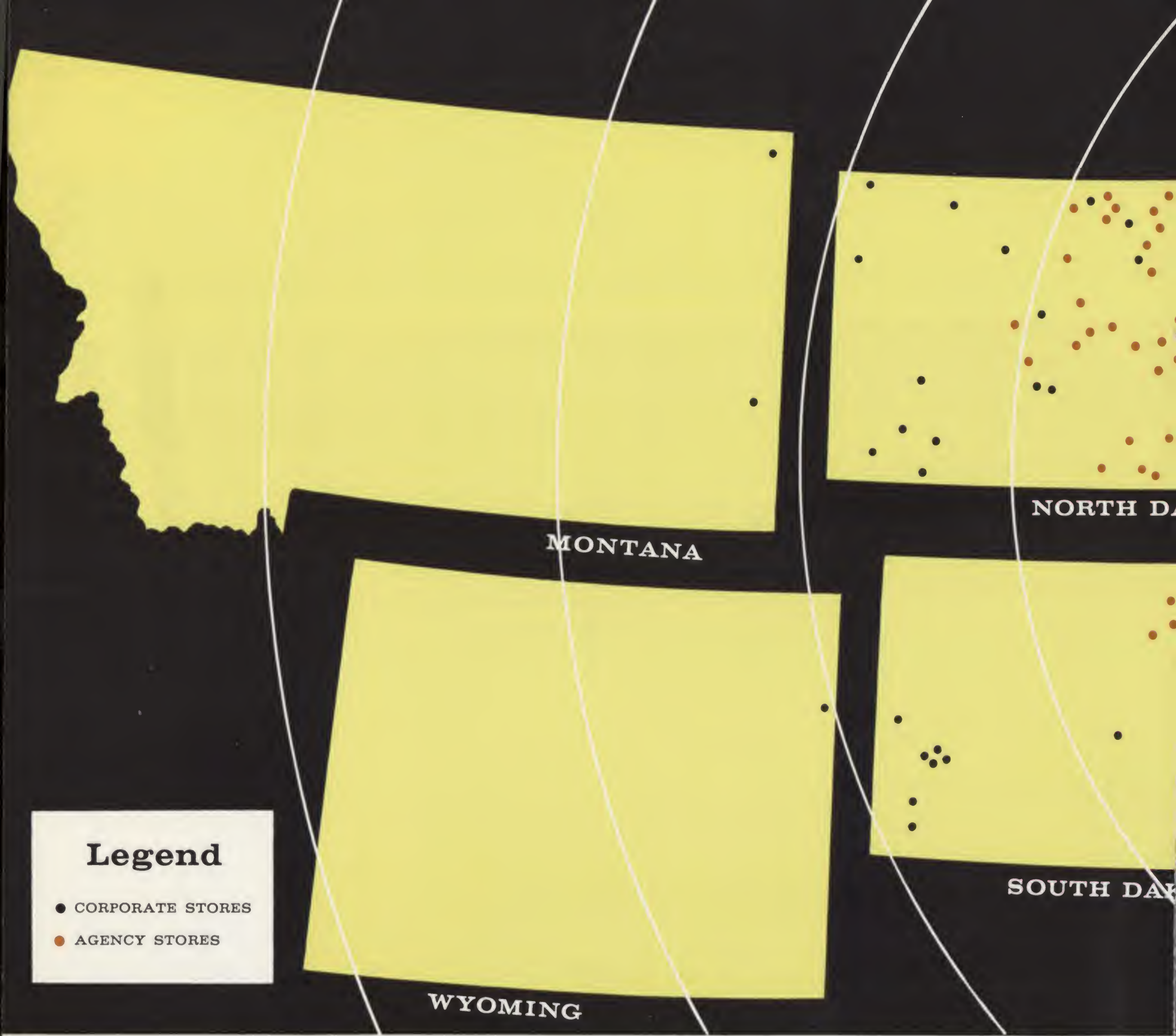
The principal functions of Hopkins Realty Company, a wholly-owned real estate subsidiary, are constructing or acquiring stores and warehouses and leasing them to Red Owl.

Generally, upon the acquisition of properties, they are financed by the sale of mortgage bonds secured by the properties and the assignment of Red Owl's leases to the purchaser of the bonds. Red Owl does not guarantee the subsidiary's obligations.

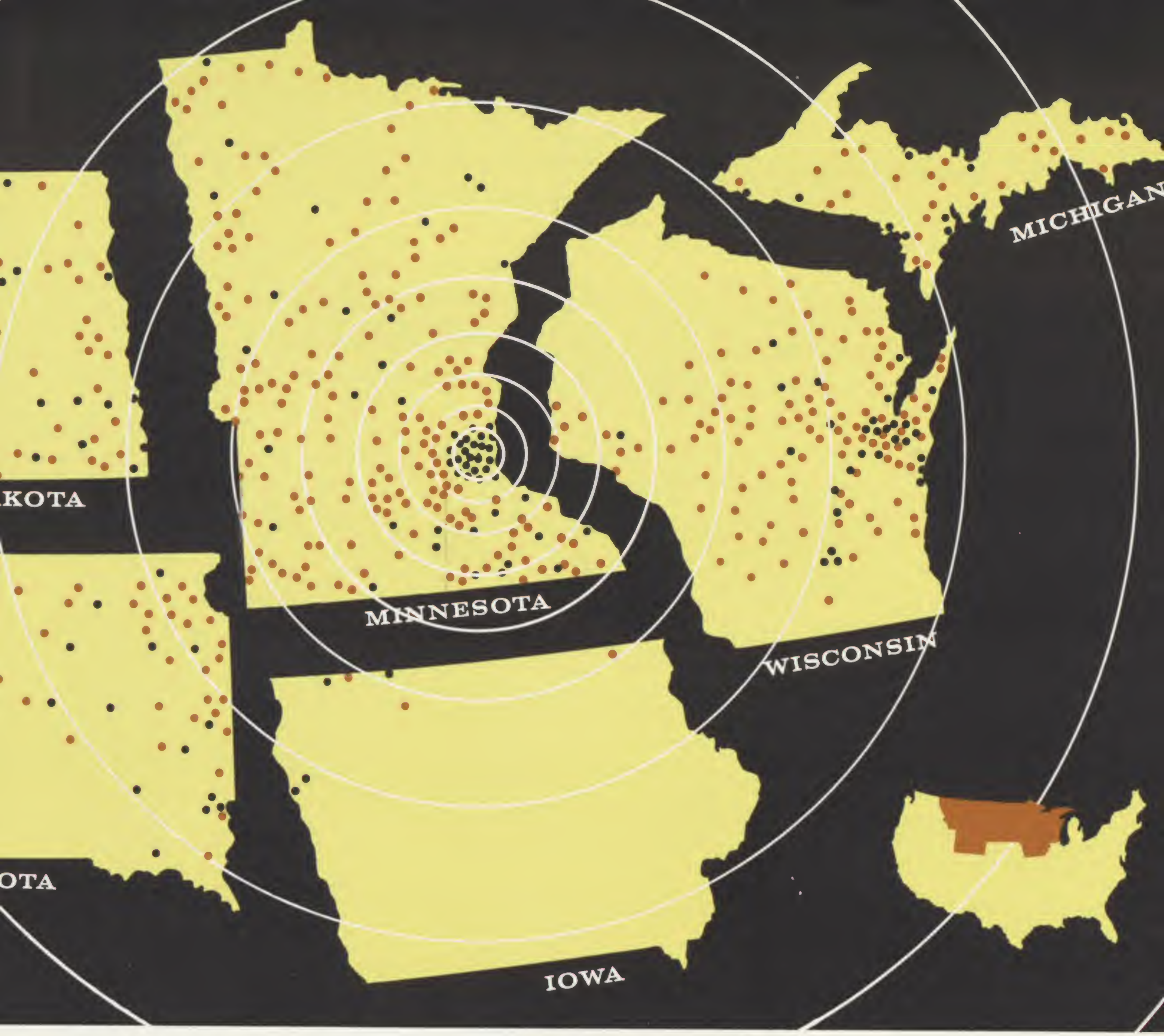
In December, 1957, $650,000 of Series D bonds were issued to partially finance the produce warehouse addition. Such funds were available under earlier agreements on a stand-by basis at 4¾% interest and are repayable in installments by December 1, 1977.

Also, in December, 1957, $1,090,500 of Series E bonds were issued covering five store properties. Upon the acquisition of the properties involved they were leased to Red Owl Stores, Inc. for a period of 30 years.

COLD air curtain chills perishable products in this experimental Dor-Less-Dor dairy counter in Red Owl's new St. Anthony (Minneapolis), Minnesota market.



	IOWA	MICH.	MINN.	MONT.	N. DAK.	S. DAK.	WIS.	WYO.	TOTAL
CORPORATE STORES	4	9	55	2	28	23	30	1	152
AGENCY STORES	3	25	160	-	50	35	103	-	376



528 Red Owl stores blanket the Upper-Midwest

. . . and *more* are on the way! From Michigan to Montana, Red Owl is building and growing fast. Beginning with a single store opened in Rochester, Minnesota back in 1922, Red Owl today serves customers and communities in eight states with 528 efficient Red Owl corporate and agency stores.

Red Owl operates three main warehouses in Hopkins, Minnesota, Fargo, North Dakota and Green Bay, Wisconsin—plus a sub-warehouse in Rapid City, South Dakota. A coffee roasting and tea packaging plant in Hopkins produces more than 50% of Red Owl's requirements, while over 60% of bread and pastries sold come from strategically located Company bakeries.

How the sales dollar was divided

For merchandise, transportation and handling costs **87.5¢**

For wages, salaries and employee benefits **9.4¢**

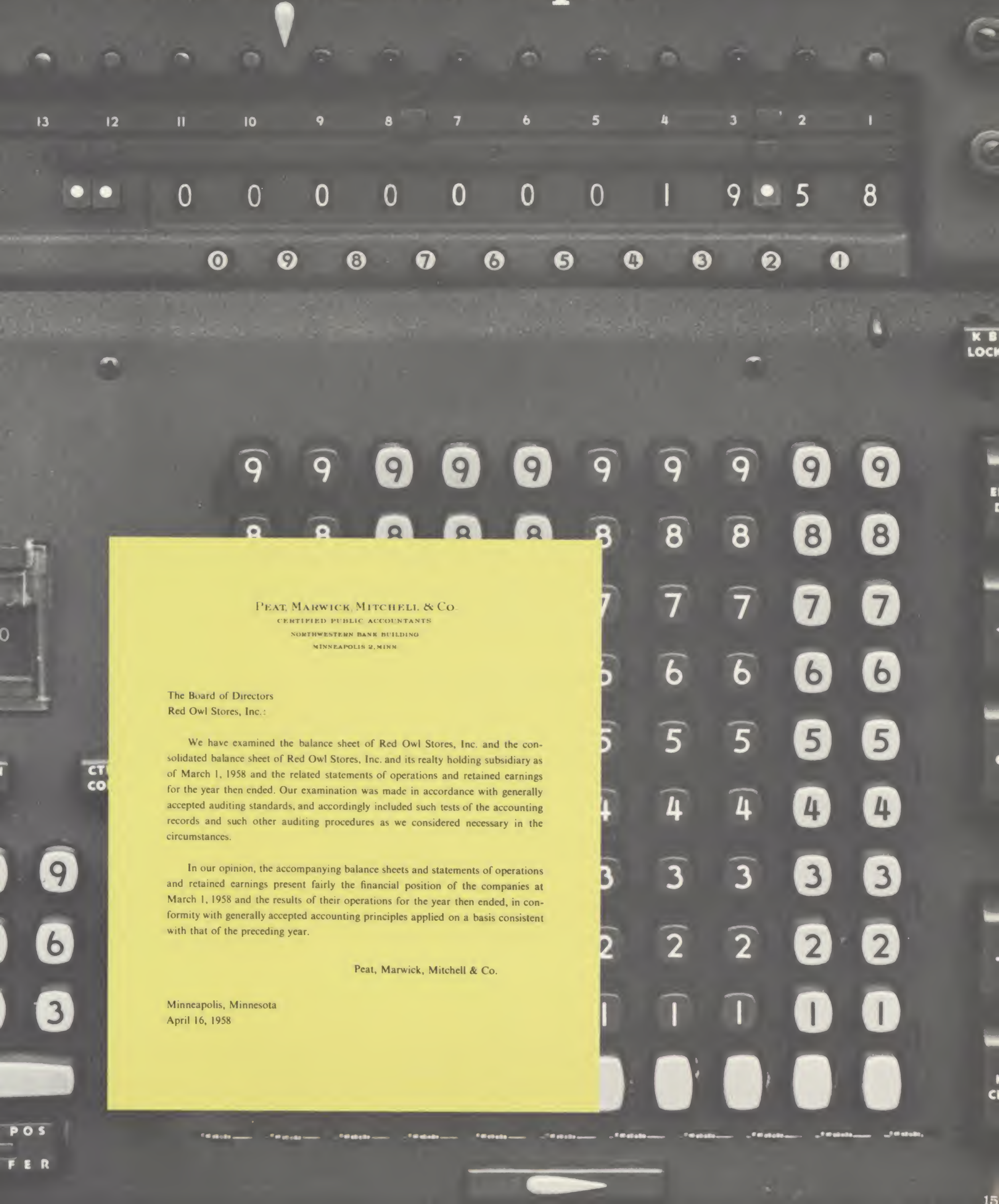
For income taxes **1.3¢**

For depreciation of buildings and equipment **0.6¢**

To stockholders **0.5¢**

Reinvested in future growth of Company **0.7¢**

Accountants' report



PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

The Board of Directors
Red Owl Stores, Inc.:

We have examined the balance sheet of Red Owl Stores, Inc. and the consolidated balance sheet of Red Owl Stores, Inc. and its realty holding subsidiary as of March 1, 1958 and the related statements of operations and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of operations and retained earnings present fairly the financial position of the companies at March 1, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Minneapolis, Minnesota
April 16, 1958

Red Owl Stores, Inc.
Statement of Operations and Retained Earnings

March 1, 1958 (with comparative figures for the previous year)

	YEAR ENDED MAR. 1, 1958 (52 weeks)			YEAR ENDED MAR. 2, 1957 (53 weeks)
	Retail	*Wholesale*	*Combined*	*Combined*
Net sales	$144,890,532	31,539,222	176,429,754	154,542,217
Cost of goods sold, including warehousing and transportation expenses (Note 7)	118,203,865	29,881,198	148,085,063	130,288,023
Gross profit on sales	$ 26,686,667	1,658,024	28,344,691	24,254,194
Selling, general and administrative and other operating expenses (Note 7)			23,873,513	20,308,656
Operating earnings			4,471,178	3,945,538
Other income:				
Gain on sales of property and equipment			—	46,997
Miscellaneous			70,616	74,731
			70,616	121,728
			4,541,794	4,067,266
Other deductions:				
Interest (on long-term debt			136,764	100,750
(other			27,697	18,028
Loss on sales of property and equipment			5,176	—
Miscellaneous			31,835	28,366
			201,472	147,144
Earnings before taxes on income			4,340,322	3,920,122
Federal and State taxes on income, estimated			2,322,000	2,122,000
Net earnings			2,018,322	1,798,122
Deduct dividends on Red Owl Stores, Inc. capital stock:				
4¾% convertible preferred stock			—	82,769
Common stock—$1.40 and $1.25 per share in respective years			853,901	663,963
			853,901	746,732
			1,164,421	1,051,390
Retained earnings at beginning of year—unappropriated			6,974,227	5,922,837
Retained earnings at end of year:				
Unappropriated (Note 3)			8,138,648	6,974,227
Appropriated for possible future inventory losses (Note 4)			285,000	285,000
Total at end of year			$ 8,423,648	7,259,227

See accompanying notes to financial statements

Red Owl Stores, Inc.
Balance Sheet

March 1, 1958 (with comparative figures for the previous year)

	MAR. 1, 1958	MAR. 2, 1957
Assets		
Current assets:		
Cash	$ 7,146,709	3,694,017
Receivables:		
Customers	988,389	814,894
Equity in installment contracts sold (uncollected balances of accounts sold to banks $180,552 and $205,824 in respective years)	49,286	51,490
Due from vendors, claims, etc.	592,085	498,512
	1,629,760	1,364,896
Less allowance for doubtful receivables	79,885	79,885
	1,549,875	1,285,011
Merchandise inventories, at lower of cost (first-in, first-out) or market (Note 4)	12,529,056	10,941,856
Prepaid expenses	501,054	428,687
Properties subsequently sold or in process of sale (with agreements to lease back)	510,870	20,310
Total current assets	22,237,564	16,369,881
Cash surrender value of life insurance	68,879	62,155
Investment in and advances to realty holding subsidiary	255,785	10,000
Property, plant and equipment, at cost less depreciation and amortization (Note 1)	8,473,218	6,539,149
Other assets	312,832	109,232
	$31,348,278	23,090,417
Liabilities		
Current liabilities:		
Current installments of long-term notes	$ 240,000	240,000
Drafts and accounts payable	5,853,396	4,590,051
Accrued expenses	1,569,724	1,306,825
Federal and State taxes on income, estimated	1,708,928	1,809,342
Total current liabilities	9,372,048	7,946,218
Provision for deferred income taxes (Note 7)	366,123	195,333
Long-term debt, less current installments included above (Note 2)	7,740,000	2,280,000
Stockholders' equity:		
Preferred stock—par value $100 per share Authorized 50,000 shares; none outstanding at March 1, 1958 (Note 5)	—	950,000
Common stock—par value $3 per share Authorized 1,250,000 shares; issued and outstanding at respective dates 610,891 and 561,861 shares (Note 6)	1,832,673	1,685,583
Additional amounts paid in by stockholders (Note 5)	3,613,786	2,774,056
Retained earnings, per accompanying statement	8,423,648	7,259,227
	13,870,107	12,668,866
Long-term lease commitments (Note 8)		
	$31,348,278	23,090,417

See accompanying notes to financial statements

Red Owl Stores, Inc. and Realty Holding Subsidiary
Consolidated Statement of Operations and Retained Earnings

Year ended March 1, 1958 (with comparative figures for the previous year)

	YEAR ENDED	
	MAR. 1, 1958 (52 weeks)	MAR. 2, 1957 (53 weeks)
Net sales	$176,429,754	154,542,217
Cost of sales and operating expenses (Note 7):		
Cost of goods sold, including warehousing and transportation expenses	147,867,142	130,084,204
Selling, general and administrative expenses	23,815,321	20,270,392
	171,682,463	150,354,596
Operating earnings	4,747,291	4,187,621
Interest and other deductions, less other income	310,905	166,320
Earnings before taxes on income	4,436,386	4,021,301
Taxes on income, estimated	2,372,000	2,169,000
Net earnings	2,064,386	1,852,301
Deduct dividends paid	853,901	746,732
	1,210,485	1,105,569
Retained earnings at beginning of year—unappropriated	7,043,651	5,938,082
Retained earnings at end of year:		
Unappropriated (Note 3)	8,254,136	7,043,651
Appropriated for possible future inventory losses (Note 4)	285,000	285,000
Total at end of year	$ 8,539,136	7,328,651

Consolidated Balance Sheet

March 1, 1958 (with comparative figures for the previous year)

Assets	MAR. 1, 1958	MAR. 2, 1957
Current assets:		
Cash	$ 7,147,086	3,712,148
Receivables, less allowance for doubtful receivables	1,549,875	1,285,011
Merchandise inventories, at lower of cost (first-in, first-out) or market (Note 4)	12,529,056	10,941,856
Prepaid expenses	501,054	429,215
Properties subsequently sold or in process of sale with agreements to lease back	510,870	288,709
Total current assets	22,237,941	16,656,939
Cash surrender value life insurance	68,879	62,155
Property, plant and equipment, at cost less depreciation and amortization (Note 1)	13,195,035	9,925,814
Other assets	395,067	134,856
	$35,896,922	26,779,764

Liabilities		
Current liabilities:		
Notes payable to bank	$ —	690,000
Current installments of long-term debt	461,700	394,000
Drafts and accounts payable	5,856,115	4,656,458
Accrued expenses	1,569,724	1,309,126
Federal and State taxes on income, estimated	1,744,417	1,856,557
Total current liabilities	9,631,956	8,906,141
Provision for deferred income taxes (Note 7)	377,746	195,333
Long-term debt, less current installments included above (Note 2)	11,901,625	4,940,000
Stockholders' equity:		
Preferred stock—par value $100 per share (Note 5)	—	950,000
Common stock—par value $3 per share (Note 6)	1,832,673	1,685,583
Additional paid-in capital (Note 5)	3,613,786	2,774,056
Retained earnings, per accompanying statement	8,539,136	7,328,651
Total stockholders' equity	13,985,595	12,738,290
Long-term lease commitments (Note 8)	—	—
	$35,896,922	26,779,764

See accompanying notes to financial statements.

Notes to Financial Statements

Note 1. *Property, plant and equipment*, at cost less depreciation and amortization at March 1, 1958 is summarized as follows:

	RED OWL STORES, INC. AND SUBSIDIARY	
	Company only	*Consolidated*
Land	$ 81,325	448,160
Buildings	58,295	4,626,441
Furniture, fixtures and equipment	10,039,370	10,039,370
Automotive equipment	1,816,090	1,816,090
	11,995,080	16,930,061
Less depreciation	4,827,662	5,040,826
	7,167,418	11,889,235
Leasehold improvements, at cost less amortization	944,845	944,845
Store construction in progress and store properties held for sale	360,955	360,955
	$ 8,473,218	13,195,035

Note 2. *Long-term debt*, less installments due within one year and cash held by trustee for current redemptions, at March 1, 1958 are summarized as follows:

3⅞% notes payable due July 1, 1966	$ 2,040,000	2,040,000
5½% promissory notes due October 1, 1972	2,200,000	2,200,000
4¾% convertible subordinated debentures, due February 1, 1978	3,500,000	3,500,000
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	678,500
4¼% due March 1, 1970, Series B	—	336,000
4½% due December 1, 1975, Series C	—	1,492,500
4¾% due December 1, 1977, Series D	—	619,125
4¾% due December 1, 1982, Series E	—	1,035,500
	$ 7,740,000	11,901,625

An additional 5½% loan of $800,000 is to be made in September, 1958 in accordance with the loan agreement relating to the 5½% promissory notes.

Aggregate annual maturities and required sinking fund redemptions of notes and bonds outstanding of the Company and its realty holding subsidiary will amount to approximately $460,000 a year through fiscal year 1961, approximately $615,000 a year from 1962 through 1965 and varying annual amounts from 1966 through 1982. Annual maturities and sinking fund redemptions of Red Owl Stores, Inc. (only) will amount to $240,000 a year through fiscal year 1961, $390,000 a year through 1965 and varying annual amounts through 1975.

Terms of the 3⅞% note, the 5½% promissory note, and the 4¾% debenture agreements provide, among other things, for prepayment of the long-term debt at the option of the Company at varying premiums. Until October 1, 1967, however, no prepayment of the 5½% notes may be made for the purpose of refunding indebtedness at lower interest rates.

Series A through E sinking fund mortgage bonds issued or assumed by the wholly-owned realty subsidiary are secured by the Company's principal warehouse property and certain store properties and the subsidiary's interest in leases made by the subsidiary to the Company covering the warehouse and store properties.

Note 3. *Restrictions on payment of dividends* (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the 3⅞% notes, the 5½% promissory notes and the 4¾% debentures. Retained earnings at March 1, 1958 free from restriction based on working capital and retained earnings requirements under the most restrictive of the agreements amount to approximately $1,725,000.

Note 4. *Retained earnings appropriated* for possible future inventory losses represents a provision made in prior years and previously deducted from inventories which has been transferred to retained earnings (appropriated) in 1958. Merchandise inventories and retained earnings at March 2, 1957 have been restated to give retroactive effect to this 1958 transfer.

Note 5. *Additional amounts paid in by stockholders* during the year amounting to $839,730 include the excess, $32,230, of amounts paid in over par value of 1,530 shares of common stock issued upon exercise of employees' stock purchase options, and the excess, $807,500, of the conversion price over the par value of 47,500 shares of common stock issued on conversion on March 5, 1957 of the remaining outstanding 9,500 shares of the 4¾% convertible preferred stock, Series A.

Note 6. *Stock options* to purchase 16,610 shares of common stock at $24 a share (granted in fiscal year 1956) and 1,850 shares at an average of $26.65 a share (granted in fiscal year 1957) were held by certain executive employees at March 1, 1958. The aggregate option value of the 18,460 shares under option at March 1, 1958 was $447,940, an average of $24.27 a share, as compared with an aggregate market value at dates of grant of $466,400, an average of $25.27 a share.

Options for 5,360 shares exercisable at March 1, 1958 and the balance of the options outstanding which become exercisable over a period of five years commencing one year after the dates granted, subject to earlier expiration in the event of termination of employment, all expire if not exercised within six years of the dates granted. During the year ended March 1, 1958, options were exercised for 1,530 shares of common stock at an average of $24.07 a share, representing an aggregate option value of $36,820. The market value of shares issued at the dates options were exercised aggregated $44,509.

At March 1, 1958, 18,800 shares of common stock were reserved for future options under the Employees' Stock Option Plan at not less than 95% of the fair market value of the stock at the dates the options are granted.

Note 7. *Depreciation and amortization* expenses included in costs and expenses are summarized as follows:

	YEAR ENDED	
	Mar. 1, 1958	Mar. 2, 1957
Red Owl Stores, Inc.	$1,120,328	922,776
Red Owl Stores, Inc. and subsidiary (consolidated)	1,224,378	1,007,258

Depreciation charges against earnings have been computed by the straight-line method. For income tax purposes, however, depreciation on fixtures and equipment acquired since January 1, 1954 has been computed by one of the accelerated methods of depreciation permitted by the Internal Revenue Code. Provision has been made for the deferred income tax liability applicable to the excess of depreciation being claimed for tax purposes over the amounts charged against earnings.

Note 8. *Long-term leases*, excluding the leases to the Company by the realty holding subsidiary described below, expiring more than three years after March 1, 1958, establish minimum annual rentals on 103 stores and two warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance, or maintenance costs payable by the Company, amount to $1,625,000. Of this amount, leases with minimum annual rentals of $210,000 expire within five years and leases with minimum annual rentals of $1,415,000 have terms extending from five to twenty years from that date.

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen or twenty years at minimum annual rentals which will aggregate approximately $285,000.

The Company has leased its principal warehouse and home office site from a wholly-owned subsidiary, Hopkins Realty Company, for an initial period of thirty years at a present minimum annual rental of $370,000. The Company also rents five store properties from the realty holding subsidiary at annual rentals aggregating approximately $95,000. Rents paid to this realty holding subsidiary have been eliminated in the consolidated figures which include depreciation and interest expense of that subsidiary.

New Ideas

Selected meats are ground, pattied and packaged in one operation by this newly-developed automatic packager.

Bananas ripen to perfection in the temperature-controlled fruit storage rooms of Red Owl's Hopkins, Minnesota warehouse.

Cellophane-wrapped cuts are heat-sealed for freshness by new, automatic meat packaging machines.

This "automatic bagger" at Red Owl's Knollwood Plaza, Minneapolis store saves customers at least one minute at checkout counters.

Red Owl Stores, Inc.
Ten year record of growth

(excluding real estate subsidiary)

FISCAL YEAR ENDED IN	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949
(000's omitted)										
Sales Retail	$ 144,891	$124,293	$95,074	$80,801	$77,064	$67,345	$65,341	$55,359	$50,822	$51,807
Wholesale	31,539	30,249	28,679	31,378	29,723	27,744	24,493	22,762	18,874	16,848
Total Sales	176,430	154,542	123,753	112,179	106,787	95,089	89,834	78,121	69,696	68,655
Earnings before Taxes on Income	4,340	3,920	2,570	2,047	1,430	1,586	1,720	2,158	1,776	1,167
Net earnings for year	2,018	1,798	1,220	972	680	746	732	1,046	1,057	721
Dividends paid on Preferred Stock	—	83	112	21	24	42	55	68	71	71
Net earnings applicable to common equity	2,018	1,715	1,108	951	656	704	677	978	986	650
Dividends paid on common stock	854	664	598	507	459	432	413	355	195	195
Net earnings for year retained in business	1,164	1,051	510	390	197	272	264	623	791	455
Net earnings per share common	3.30	3.08	2.17	1.93	1.43	1.54	1.63	2.41	2.52	1.66
Dividends per share common	1.40	1.25	1.20	1.05	1.00	1.00	1.00	.90	.50	.50
(000's omitted)										
Current Assets*	22,238	16,370	15,138	13,485	11,523	10,882	10,464	8,981	6,969	6,721
Current Liabilities	9,372	7,946	6,769	5,430	5,101	4,405	3,991	4,715	2,637	3,557
Net Working Capital*	12,866	8,424	8,369	8,055	6,422	6,477	6,473	4,266	4,332	3,164
Stockholders' Equity*	13,870	12,669	11,588	11,078	8,311	8,114	7,844	7,581	6,958	5,701
Ratio of current assets to current liabilities	2.37 to 1	2.06 to 1	2.24 to 1	2.48 to 1	2.26 to 1	2.47 to 1	2.62 to 1	1.90 to 1	2.64 to 1	1.89 to 1
Book value per share common*	22.70	20.86	18.67	17.46	16.94	16.51	15.98	15.30	13.70	10.49
Shares outstanding Preferred	—	9,500	18,850	25,000	4,934	5,239	11,471	12,888	15,000	15,000
Common	610,891	561,861	513,901	483,151	459,590	457,688	414,884	405,154	390,620	390,620
Number of common shareholders	3,228	2,389	2,291	2,161	1,998	1,777	1,370	1,336	1,066	921
Number of stores at close of year Retail	152	146	143	145	151	162	179	181	189	199
Agency	376	419	504	556	551	562	559	546	536	476
Average sales per retail location	953,000	851,000	665,000	557,000	510,000	415,000	365,000	306,000	269,000	260,000
Number of employees (including part time)	5,300	4,600	3,900	3,400	3,300	3,200	3,100	2,700	2,400	3,000

**Retroactively adjusted to reflect inventory reserve transferred to retained earnings in 1958.*

Directors

(and year elected to Board)

Ford Bell, Chairman of the Board of Directors and Chief Executive Officer, Red Owl Stores, Inc.	1928
*Alf. L. Bergerud, President, Red Owl Stores, Inc.	1944
John C. Cornelius, Honorary Director, Batten, Barton, Durstine & Osborn, Inc.	1948
John Y. Dear, Retired Vice President, Red Owl Stores, Inc.	1943
*Glenn R. Grife, Vice Chairman of the Board, Red Owl Stores, Inc.	1935
Richard L. Kozelka, Dean, School of Business Administration, University of Minnesota	1949
Goodrich Lowry, President, Northwest Bancorporation	1957
Pierce H. McDowell, President, Howalt-McDowell, Inc., Sioux Falls, South Dakota	1956
Erling Rice, Vice President-Operations, Red Owl Stores, Inc.	1957
Henry C. Stephenson, Financial Consultant	1935
H. J. Worrell, Retired Vice President, Red Owl Stores, Inc.	1944

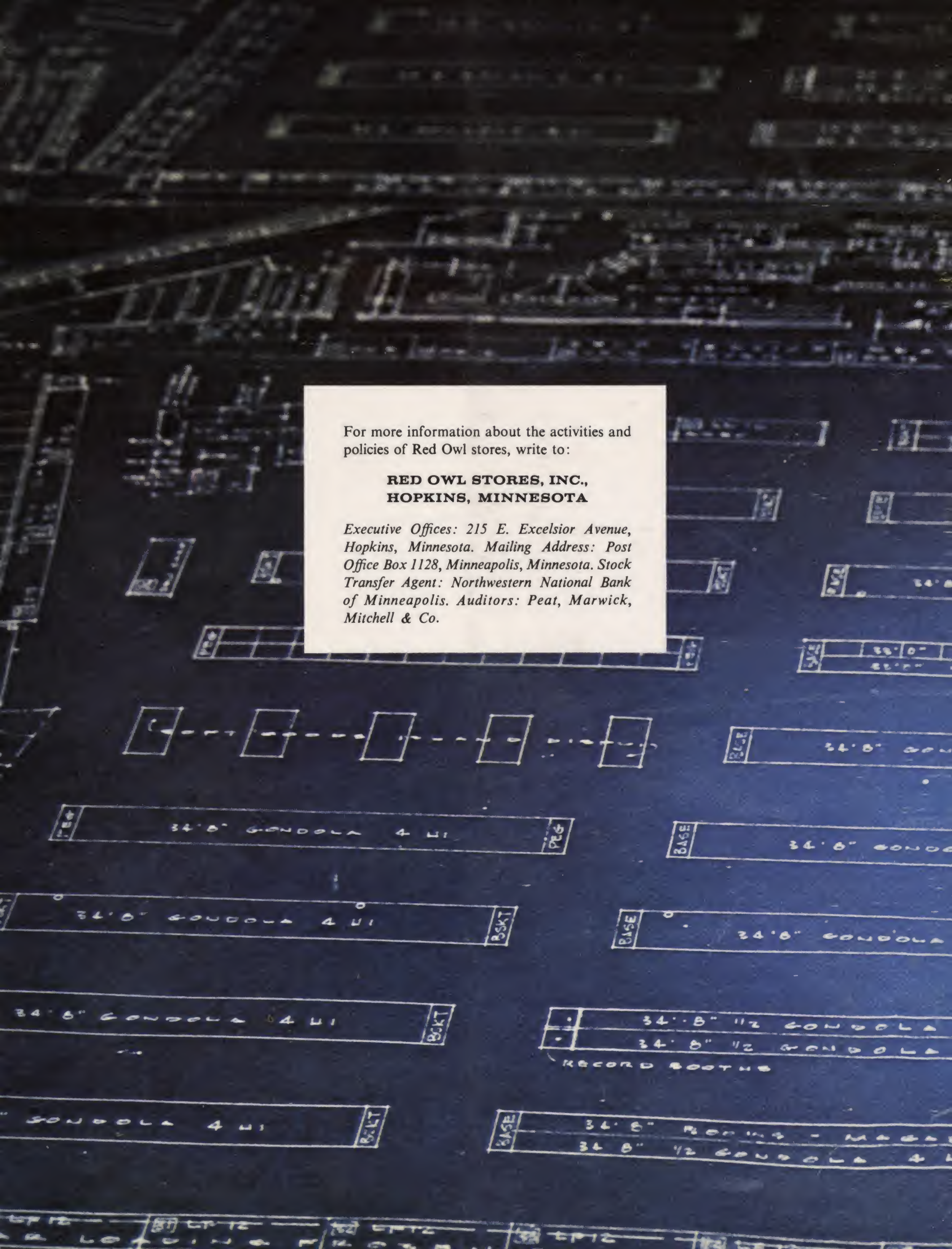
Officers

Ford Bell, Chairman of the Board of Directors and Chief Executive Officer
*Alf. L. Bergerud, President
*Glenn R. Grife, Vice Chairman of the Board
W. J. Quinn, Vice President
Erling Rice, Vice President
L. W. Rixe, Vice President and Treasurer
James A. Watson, Vice President
J. T. Sydness, Secretary
F. D. Scott, Controller
M. J. McMahon, Assistant Vice President
V. J. Winter, Assistant Vice President
Thomas R. Pellett, Assistant Treasurer
A. L. Nordstrom, Assistant Secretary
N. A. Riley, Assistant Secretary

Management Committee

*Alf L. Bergerud, Chairman
Erling Rice
L. W. Rixe

**On March 10, 1958, Alf L. Bergerud was elected President of the corporation succeeding Glenn R. Grife who became Vice Chairman of the Board.*



For more information about the activities and policies of Red Owl stores, write to:

RED OWL STORES, INC.,
HOPKINS, MINNESOTA

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minnesota. Mailing Address: Post Office Box 1128, Minneapolis, Minnesota. Stock Transfer Agent: Northwestern National Bank of Minneapolis. Auditors: Peat, Marwick, Mitchell & Co.